

8

Self Balancing Ledgers

Learning Objectives

After studying this chapter, you will be able to:

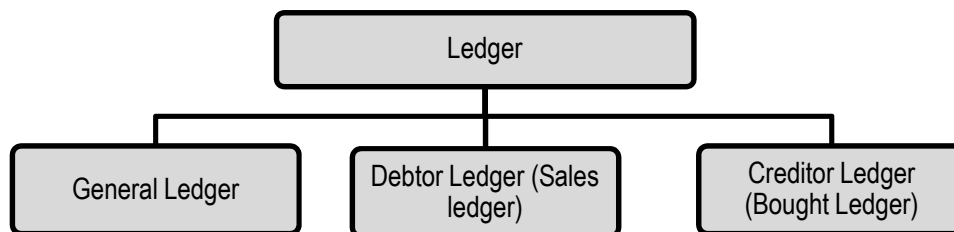
- ◆ Define and understand the significance of self-balancing ledger system and sectional balancing system.
- ◆ Be familiar with the three ledgers generally maintained in a self-balancing ledger system.
- ◆ Observe that in self balancing system total debtors and total creditors accounts kept in the general ledger are called sales ledger adjustment account and bought ledger adjustment account respectively.
- ◆ Learn the technique of maintaining total debtors and total creditors accounts under sectional balancing system.
- ◆ Note the technique of recording transactions involving transfer from one ledger to another ledger under both the systems.

1. Introduction

One ledger is maintained for all accounts when the volume of transactions of business is small and number of accounts is limited. But for a big business, with rise in the number of transactions, size of the ledger becomes hefty due to large number of accounts. When large number of ledgers is kept by a concern and if their balances do not tally, the accountant would have to face great difficulty in tracing book-keeping errors, responsible for the non-agreement of the trial balance. In order to reduce to a minimum the trouble and time involved in locating the errors, sometimes the system of multiple ledgers (self-balancing or sectional balancing) is employed.

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Under multiple ledger system, ledger is usually divided into three parts viz.



In this chapter, we shall discuss the concept and significance of Self-balancing and Sectional balancing systems with the help of suitable illustrations.

2. Self-Balancing System

Self Balancing Ledger System implies a system of ledger keeping which classifies ledgers as per nature of transactions, namely, Sales ledger, Bought ledger, General ledger, etc. and also makes them to balance independently. The objective of this system is to identify errors and to facilitate their quick detection with the minimum efforts. In order to make each ledger self-balancing, an extra account called general ledger adjustment account is opened in each of the sales ledger and bought ledger. The maintenance of various ledgers under this system will be discussed in detail in para 2.3.

2.1 Working of the Self-Balancing system

Quite often the debit and credit entries relating to a transaction are posted in different ledgers e.g. when goods are sold on credit, the Sales Account will be credited in the General Ledger but the corresponding debit will be made in the customer's account in the Personal Ledger. In such a case for ascertaining the correctness of the posting in either of the ledgers it will be necessary to take out balances in both the ledgers; thus a mistake in one ledger will require checking of the balances in the others as well.

Such a position would be avoided if every ledger is made independent of the other by the converse aspect of entries in each ledger being posted in totals to the Control Account set up in the ledger itself. If this is done the correctness of individual balances in each ledger would be verified extracting its balances and agreeing them with the balances of the Control Account. A ledger that has a 'Control Account' set up in it, is referred to as a 'self balancing ledger'. It connotes that it is capable of being balanced independently, the balance in the Control Account being equal to that of the individual balance.

2.2 Advantages of Self-Balancing system

- (i) Fixation of responsibility of ledger keeper: Self-balancing system fixes the responsibility of the ledger keeper, as to the balancing of the ledger under his/her charge and the person responsible for the mistake can be called upon to work overtime to locate it. Errors are localised.

- (ii) **Arithmetical accuracy:** Arithmetical accuracy of each ledger can be proved independently.
- (iii) **Preparation of interim accounts:** It enables preparation of interim accounts without personal ledgers having to be balanced.
- (iv) **Availability of total figures:** The figures of total debtors or creditors is readily available.
- (v) **Internal check:** It is instrumental in strengthening the internal check.
- (vi) **Secrecy:** Where it is desired not to reveal the content of the private ledger to the clerical staff, the balances on this ledger can be directly incorporated in total figure in the trail balance.

2.3 Various Ledgers to be Maintained in Self-balancing Ledger System

In the Sales or Bought ledgers double entry is not completed as in the system outlined above, a separate trial balance cannot be taken out from these ledgers. If these ledgers are maintained in such a way as to offer separate trial balances, the system would be known as "Self-balancing". In such a case "General Ledger Adjustment Account" is prepared in each of the subsidiary ledgers. The General ledger would have:

- (i) Bought Ledger Adjustment Account
(in reality, Total Creditors Account) and
- (ii) Sales Ledger Adjustment Account
(in reality, Total Debtors Account)

These accounts are known as Control Accounts. The system on which entries are made in the adjustment account is described below:

2.3.1 Bought Ledger: For recording a purchase it will be observed that the initial entry made is to the debit of the Purchases Account in the General Ledger and to credit the Supplier's Account in the Bought Ledger. If it is desired to make the General and Bought Ledger self-balancing a further entry would be made debiting the General Ledger Adjustment account in the Bought Ledger, and crediting the Bought Ledger Adjustment Account in the General Ledger with the total of purchases.

Again, if part of the materials purchased is returned and the balance due is paid the entries made would be; debit the personal account of the Supplier in the Bought Ledger with the value of goods returned as well as the amount paid and credit Return Outwards Account in the General Ledger with the value of goods returned and Bank Account with the amount paid. Further, in consonance with the system of self-balancing an additional entry should be made crediting the General Ledger Adjustment Account in the Bought Ledger and debiting the Bought Ledger Adjustment Account in the General Ledger with the aforementioned amount.

Similarly entries can be made in case of bills payable, discount in price etc. It should be particularly noted that the **balance in the Bought Ledger Adjustment Account in the General Ledger will be equal to that in the General Ledger Adjustment Account in the**

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Bought Ledger but on the opposite side. Also, the Bought Ledger Adjustment Account shall self-balance the General Ledger.

If there are several Bought Ledgers in use each such ledger will have a General Ledger Adjustment Account and, in the General Ledger there will be Bought Ledger Adjustment Account separately for each of these ledgers.

For the sake of economy of effort and facility of postings the additional entries for making ledgers self-balancing are made only periodically, at the end of each month or week from the totals of transactions, recorded in the subsidiary books kept for the purpose.

2.3.2 Sales Ledger: For recording a credit sale, it will be observed that the original entry made is to debit the customer's account in the Sales Ledger and to credit the Sales Account in the General Ledger. But to self-balance the General and Sales Ledgers a further entry is made, debiting the Sales Ledgers Adjustment A/c in the General Ledger and crediting the General Ledger Adjustment Account in the Sales Ledger with the total of sales.

Again, when a part of the goods sold is received back and the balance realised, the entries made are to debit the Sales Return account with the value of goods returned as well as Bank Account with the amount collected, and credit their total to personal account of the customer in the Sales Ledger. Further to self-balance the ledgers an additional entry is made to debit the General Ledger Adjustment Account in the Sales Ledger and credit the Sales Ledger Adjustment Account in the General Ledger with the aforementioned amounts.

Similarly entries can be made in case of bills receivable, dishonoured bills etc.

2.3.3 General Ledger: As stated above, each time an entry is made in the Bought and Sales Ledger for self-balancing, the contra effect of the entries is shown in the Bought Ledger or Sales Ledger Adjustment Account set up in the General Ledger. The accounts represent the Total Debtors and Creditors Accounts in a summarised form and thus serve to self-balance the General Ledger. As a result no additional entries are required to make the General Ledger self-balancing.

It may be mentioned that **in regard to several other accounts, which do not relate either to customers or suppliers, no additional entry is necessary under the self-balancing scheme** since, both aspects of every transaction already exist in one or other of the accounts contained in the General Ledger such as cash sales, discounting of bills, recovery of bad debts written off, creating provision for bad debts etc.

Illustration 1

Dinesh & Co. have three ledgers in use viz, a Debtors Ledger, a Creditors Ledger and a Normal Ledger which are all kept on the system of self-balancing. From the following particulars prepare the adjustments account that would appear in each of these ledgers.

2015		₹
Jan. 1	Balance of Sundry Debtors	16,000
	Balance of Sundry Creditors	18,500

Jan. 31	Credit Purchases	4,500
	Credit Sales	9,800
	Cash Sales	1,500
	Paid to Creditors	9,875
	Discount allowed by them	325
	Cash received from debtors	7,800
	Allowed them discount	200
	Bills payable accepted	1,500
	Bills receivable received	3,000
	Returns inwards	875
	Returns outwards	600
	Rebates allowed to debtors	275
	Rebates allowed to creditors	150
	Provision for Doubtful Debts	320
	Bad Debts	450
	Bills Receivable dishonoured	375

Solution

**In the Debtors Ledger
General Ledger Adjustment Account**

Dr.					Cr.
2015		₹	2015		₹
Jan. 31	To Debtors Ledger		Jan. 1	By Balance b/d	16,000
	Adjustment Account :		Jan. 31	Debtor Ledger	
	Bank	7,800		Adjustment A/c:	
	Discount	200		Sales	9,800
	Bills Receivable	3,000		Bills Receivable dishonoured	375
	Returns Inwards	875			
	Allowances	275			
	Bad Debts	450			
	To Balance c/d	<u>13,575</u>			
		<u>26,175</u>			<u>26,175</u>
			Feb. 1	By Balance b/d	13,575

Entries for cash sales and provision for doubtful debts will not affect Debtors Ledger.

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In the Creditors Ledger General Ledger Adjustment Account

2015		₹	2015		₹
Jan. 1	To Balance b/d	18,500	Jan. 31	By Creditors Ledger	
Jan. 31	To Creditors Ledger			Adjustment Account:	
	Adjustment Account:			Bank	9,875
	Purchases	4,500		Discount	325
				Bills Payable	1,500
				Return outwards	600
				Allowances	150
				By Balance c/d	<u>10,550</u>
		<u>23,000</u>			<u>23,000</u>
Feb. 1	To Balance b/d	10,550			

In General Ledger Debtors Ledger Adjustment Account

2015		₹	2015		₹
Jan. 1	To Balance b/d	16,000	Jan. 31	By Nominal Ledger	
Jan. 31	To Nominal Ledger			Adjustment Account:	
	Adjustment A/c:			Bank	7,800
	Sales	9,800		Discount	200
	Bills Receivable			Bills Receivable	3,000
	dishonoured	375		Returns inwards	875
				Allowances	275
				Bad Debts	450
				By Balance c/d	<u>13,575</u>
		<u>26,175</u>			<u>26,175</u>
Feb. 1	To Balance b/d	13,575			

Creditors Ledger Adjustment Account

2015		₹	2015		₹
Jan. 31	To Nominal Ledger		Jan. 1	By Balance b/d	18,500
	Adjustment A/c:		Jan. 31	By Nominal Ledger	
	Bank	9,875		Adjustment A/c:	

	Discount	325		Purchases	4,500
	Bills Payable	1,500			
	Return Outwards	600			
	Allowances	150			
	To Balance c/d	<u>10,550</u>			
		<u>23,000</u>			<u>23,000</u>

Transfer from one ledger to another: Whenever a balance is transferred from an account in one ledger to that in another e.g., from the Bought Ledger to the Sales Ledger, the entry is recorded through the Journal. Also an additional entry is made in the Control Accounts for recording the corresponding effect.

3. Sectional Balancing

A really simple way to prove the accuracy of say, the Sales Ledger would be to maintain a Total Debtors account in the General Ledger. It would mean that whereas accounts of Individual customer would be maintained in the Sales Ledger, in the General Ledger the Total Debtors account would be posted by the (monthly) totals of various transactions with total credit sales, total amount received from credit customers, total discount allowed to them, total returns inwards, total bills receivable received; etc. The balance in the Total Debtors Account should be equal to the total of balances shown by the accounts of individual customers. If it is so, the Total Debtors Account as well as individual customers' account may be taken as correct. A difference would show that there is some error somewhere.

In the same way, the accuracy of individual supplier account may be checked by comparing total of their balances with the balance in the Total Creditors Account.

The double entry would be complete in the General Ledger itself. For instance, for credit sales– Total Debtors Account would be debited and Sales Account credited. For goods returned to suppliers– Total Creditors Account would be debited and Return Outward Account credited.

The "total accounts" are also known as adjustment accounts or control accounts since they prove the accuracy of the subsidiary (Sales or Bought) ledgers.

To sum up, under sectional balancing system, only the total account for each of the subsidiary ledgers is opened in the general ledger and no control/ adjustment account/ self-balancing account is opened in the subsidiary ledger.

3.1 Advantages of sectional balancing system

Advantages of using control accounts under the system are as follows:

1. Check on accuracy of entries: Control accounts provide a check on accuracy of entries made in personal accounts in debtors ledger as well as creditors ledger.

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2. Location of errors: A regular comparison of balances of control accounts with individual balances will quickly fix up the errors.
3. Preparation of final accounts: Control accounts assist in preparation of final accounts by providing the total balances.
4. Calculation of missing figures: Control accounts help in computation of missing figures.
5. Internal check: Control accounts provide an interim check over postings in different accounts.

4. Distinction between Self Balancing and Sectional Balancing systems

	Self Balancing	Sectional Balancing
1. Classification of ledgers	Separate ledger is maintained for different type of transactions.	Only total account for each of the subsidiary ledgers is opened in the general ledger.
2. Double entry	Under this system, a general ledger adjustment account is prepared in the debtors' ledger as well as in creditors' ledger to complete double entry.	A separate trial balance can't be made from these ledger as double entry is not completed.
3. Accuracy of accounts	Correctness of individual account balances in each ledger will be verified by extracting its balances by agreeing them with balance of control accounts.	Accuracy of individual customer's/supplier's account can be checked by comparing the total of their balances with balances of total debtors' /creditors' account in general ledger.

5. Rectification of Errors

5.1 Rectification of errors before opening Suspense Account

5.1.1 Sectional Balancing System: If the error affects the accounts of Debtors or Creditors without affecting their total, it is rectified by adjusting the accounts of Debtors or Creditors itself. However, if it affects the totals of Debtors or Creditors, the additional entries are to be made in the main ledger through Total Debtors and Total Creditors Account. The same is discussed with the following examples:

1. If goods sold to X and wrongly posted in the account of Y, trial balance of main ledger will tally. This error can be rectified in Debtors' ledgers by debiting X's account and crediting Y's account.
2. If goods sold to X are not recorded in the Sales Book, it means under reporting of Sales. It means sectional balancing entry will be passed with lower amount of sales and Total debtors. The error can be rectified by debiting the total debtors account and crediting the sales account in the main ledger.
3. If goods sold to X are omitted to be recorded in his account only in the debtors' ledger, main ledger will tally. This error is rectified by debiting X's account by writing "to error in omitting to record sales".
4. If goods sold to X are recorded in the debtors ledger and sales account is properly credited at the end of the period, but omitted to debit the total debtors account. The error can be rectified by writing in debit side of total debtors account "To error in omitting to record sales".

5.1.2 Self Balancing System: The rectification of errors will be done in the usual manner as in single ledger system but there is one difference that is, whenever the totals of Debtors or Creditors are affected, rectification will be done by making additional self balancing entries. In this case, rectification of errors in the above examples will be done as follows:

1. For rectification of errors in Debtors ledger - X's account will be debited and Y's account will be credited.
2. The rectification of error will be made by crediting sales account by writing 'By error in omitting the sales' and additional entry of self balancing with the same amount will be made, namely,

Debtor Ledger Adjustment A/c	Dr	(In main ledger)
To General Ledger Adjustment A/c		(In debtors ledger)

3. The error is rectified by debiting X's account by writing 'To error in omitting to record sales.'
4. This can be rectified by self balancing entry with the same amount, namely,

Debtor Ledger Adjustment A/c	Dr	(In main ledger)
To General Ledger Adjustment A/c		(In debtors ledger)

5.2 Rectification of errors after opening Suspense Account

5.2.1 Sectional Balancing System: The method of rectification of error will be same, with the exception that the entries which were corrected unilaterally will be corrected through suspense account. In the above examples rectification of error will be done as follows :

1. Same as above.
2. Same as above.
3. Same as above.

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4. Total Debtors A/c Dr. (In main ledger)
 To Suspense A/c (In main ledger)

5.2.2 Self Balancing System: The method of rectification of error will be same, with the exception that the entries which were corrected unilaterally will be corrected through suspense account. In the above examples rectification of errors will be done as follows:

1. Same as above.
2. (a) Suspense A/c Dr. (In Debtors ledger)
 To Sales A/c
- (b) Debtors ledger Adjustment A/c Dr. (In main ledger)
 To General Ledger Adjustment A/c (In Debtors Ledger)
3. X's A/c Dr. (In Debtors Ledger)
 To Suspense A/c (In Debtors Ledger)
4. (a) Debtors ledger Adjustment A/c Dr. (In main ledger)
 To Suspense A/c (In main ledger)
- (b) Suspense A/c Dr. (In Debtors ledger)
 To General Ledger Adjustment A/c (In Debtors Ledger)

Illustration 2

Prepare journal entries in the books of Exe. Ltd. for the following:

- (a) The Sales Book was found under cast by ₹ 1,000.
- (b) Discount allowed to Rao ₹ 50 correctly, entered in the Cash Book was not posted to his account.
- (c) Credit balance of ₹ 310 in Murty's account in the Purchase Ledger was to be transferred to his account in Sales Ledger.

Give Journal entries both under the self-balancing system and the sectional balancing system.

Solution

Journal of Exe. Ltd.

Self-Balancing System:

(a)	Sales Ledger Adjustment Account (In General Ledger)	Dr.	1,000	
	To General Ledger Adjustment Account (In Sales Ledger)			1,000
	(The error because of the under-casting of Sales Books, rectified)			
	Suspense Account (In Sales Ledger)	Dr.	1,000	
	To Sales Account			1,000
	(Rectification of the error resulting from under casting of the Sales Book)			

(b)	Suspense Account (In Sales Ledger)	Dr.	50	
	To Rao (In Sales Ledger)			50
	(Rectification of the error by which Rao was not credited, accounts in the general ledger are not affected)			
(c)	Murty (In Purchase Ledger)	Dr.	310	
	To Murty (In Sales Ledger)			310
	(Transfer of Murty's credit balance in the Purchase Ledger to his account in the Sales Ledger)			
	Bought Ledger Adjustment Account (In General Ledger)	Dr.	310	
	To General Ledger Adjustment A/c			310
	(In Bought Ledger)			
	(Correction of the adjustment accounts relating to the Bought Ledger because of the transfer of Murty's account, in the Purchase Ledger)			
	General Ledger Adjustment Account (In Sales Ledger)	Dr.	310	
	To Sales Ledger Adjustment A/c (In General Ledger)			310
	(Correction of the adjustment account relating to the Sales Ledger because of the transfer of Murty's account)			

Note : It is assumed that if a ledger is not balanced, a Suspense Account has been opened.

Sectional Balancing System

(a)	Total Debtors Account	Dr.	1,000	
	To Sales Account			1,000
	(Rectification of the consequence of the under- casting the Sales Book)			
(b)	Credit Rao with ₹ 50 (In Sales Ledger)			
(c)	1. Murty (In Purchase Ledger)	Dr.	310	
	To Murty (In Sales Ledger)			310
	(Transfer of Murty's credit balance ₹ 310 in the Purchase Ledger to his account in the Sales Ledger)			
	2. Total Creditors A/c	Dr.	310	
	To Total Debtors A/c			310
	(Adjustment of total accounts because of the transfer of Murty's account, in the Purchase Ledger to the Sales Ledger)			

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Illustration 3

From the following particulars as extracted from the books of Messrs Kulkarni Brothers, who keep a Debtors' Ledger, a Creditors Ledger and a General Ledger on the self-balancing system, show how the General Ledger Adjustment Account will appear in the Debtor's Ledger and the creditors' Ledger.

	₹
Debtors' Balance on 1st January, 2014	91,500
Creditors' Balance on 1st January, 2014	1,09,800
Transactions for the year 2014 :	
Credit purchases	41,000
Credit sales	45,400
Returns Inwards	800
Returns Outwards	1,200
Cash received from customers	51,000
Discount allowed to customers	900
Cash paid to creditors	61,400
Discount received	1,340
Acceptances received	17,000
Acceptances given	24,000
Bills Receivable dishonoured	2,400
Bills Payable dishonoured	6,000
Bad debts written off	5,000
Sundry charges debited to customers	690
Allowances from creditors	550
Transfer from Debtors Ledger	1,290

Solution

General Ledger Adjustment A/c (in Sales Ledger)

2014		₹	2014		₹
Jan. to Dec. 31	To Sales Ledger		Jan. to Dec. 31	By Balance b/d	91,500
	Adjustment A/c in			By Sales Ledger	
	General Ledger:			Adjustment A/c	
	Return Inward	800		in General Leger	

	Bank	51,000		Sales	45,400
	Discount	900		B/R Dishonoured	2,400
	Bills Receivable	17,000		Sundry Charges	690
	Bad Debts	5,000			
	Transfer	1,290			
Dec. 31	To Balance c/d	<u>64,000</u>			<u> </u>
		<u>1,39,990</u>			<u>1,39,990</u>
			2015		
			Jan. 1	By Balance b/d	64,000

General Ledger Adjustment A/c (in Purchases Ledger)

2014		₹	2014		₹
Jan. 1 to Dec. 31	To Balance b/d	1,09,800	Jan. 1 to Dec. 31	By Purchases Ledger Adjustment A/c in General Ledger:	
	To Purchases Ledger Adjustment A/c in General Ledger :			Bank	61,400
	Purchases	41,000		Bills Payable	24,000
	Bills Payable cancelled	6,000		Return Outward	1,200
				Discount	1,340
				Allowance	550
				Transfer	1,290
		<u> </u>	Dec. 31	By Balance c/d	<u>67,020</u>
		<u>1,56,800</u>			<u>1,56,800</u>
2015					
Jan. 1	To Balance b/d	67,020			

6. Ruling of Subsidiary Books

Whenever there are several Bought or Sales Ledgers in use, various books of original entry, e.g., Purchases Books, Sales Books, Cash Book and Journal are suitably ruled in a manner that they readily show the monthly total of the transactions posted in various ledgers, on the basis of which the self-balancing entries, can be recorded.

7. Secret Account

At time it may be considered necessary to keep the operation of certain accounts, e.g., partners' capitals, loans, deposits etc., secret from members of the staff except the senior officials. In such a case, these accounts would be segregated into a Private Ledger and posting will be made in the ledger by a confidential clerk, under the direct supervision of the Chief Accountant. Also a General Ledger Adjustment Account will be set up in the Private Ledger and a Private Ledger Adjustment Account in the General Ledger. **In this way, though the individual entries in the accounts kept in the Private Ledger will be revealed to the accounting staff, their total effect will be kept secret.** In case individual accounts also are desired to be kept secret separate Cash Book and Bank Account would be maintained; this would ensure complete secrecy.

When such a system is first started, the assets and other debit balances are transferred to the Private Ledger by crediting the respective accounts in the General Ledger and the Private Ledger Adjustment Account is debited with their total. The opposite are the entries made when credit balances are transferred. Also, if it is desired to transfer a part of the Bank Balance to Private Bank Account, Bank Account is credited and the Private Ledger Adjustment Account is debited. From the Private Bank Account, partners will be able to draw amounts required by them and to pay interest on deposits and loans at whatever rates they may please without the fact being disclosed to the staff.

When accounts are closed at the end of the year, the revenue accounts are closed off by transfer of the Private Ledger Adjustment Account and corresponding entries are made in the Private Ledger by debit or credit to the General Ledger Adjustment Account. Afterwards all the balances so transferred, along with those already in the Private Ledger, are transferred to the Profit & Loss Account in the Private Ledger. In this way, complete secrecy is maintained regarding the operation of accounts in the Private Ledger; also the amount of profit made by the concern is not disclosed to the staff.

Students may note that the procedure followed for making the Private and General Ledgers self-balancing is somewhat different from that described above in so far as entries in the Adjustment Accounts are not made at the time an expense is paid or an income is collected, but only at the end of the year. This is done only to avoid making book keeping too cumbersome.

Illustration 4

M. Govind keeps self-balancing ledgers. Record the following transactions in the General Ledger Adjustment Account in the Sales Ledger :

- 1.4.2015 *Received ₹ 475 from Mr. X in full settlement. He was allowed a discount of ₹ 25.*
- 2.4.2015 *Received ₹ 2,000 from Mr. Y towards his dues in full.*
- 3.4.2015 *Goods supplied to Mr. T ₹ 700 and received ₹ 300 after adjustment of the advance of ₹ 400.*

4.4.2015 Bad debts recovered from Mr. Q ₹ 1,000.

5.4.2015 Goods sold to the following :

Mr. A ₹ 1,000

Mr. B ₹ 1,500

Mr. C ₹ 2,000

15.4.2015 Mr. P paid ₹ 750 towards dues. Balance thereafter due was ₹ 250.

25.4.2015 Amount received from the following :

Mr. A ₹ 750

Mr. B ₹ 1,000

Mr. C ₹ 2,000

30.4.2015 Advance received from Mr. R for supply ₹ 2,000.

Solution

Sales Ledger General Ledger Adjustment Account

2015		₹	2015		₹
April 1	To Balance b/d	400	April 1	By Balance b/d	3,500
April 2	To Sales Ledger		April 3	By Sales Ledger	
	Adjustment A/c	300		Adjustment A/c (Sales)	700
April 30	To " " (P, X & Y)	3,250	April 30	By Sales Ledger	
	To " " (A, B, C)	3,750		Adjustment A/c	4,500
	To " " R	2,000	April 30	By Balance c/d	2,000
April 30	To Balance c/d				
	(A, B & P)	<u>1,000</u>			
		<u>10,700</u>			<u>10,700</u>
May 1	To Balance b/d	2,000	May 1	By Balance b/d	1,000

Working Notes :

(i) Opening balance includes the following debts :

	₹
X	500
Y	2,000
P	<u>1,000</u>
	<u>3,500</u>

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- (ii) Opening debit balance ₹ 400, is advance from T.
- (iii) Closing debit balance represents advance from R ₹ 2,000.
- (iv) Closing balance of ₹ 1,000 includes the following debts :

	₹
A	250
B	500
P	<u>250</u>
	<u>1,000</u>

Illustration 5

The following information is available from the book of a trader from January 1 to March 31, 2013:

- (1) Total sales amounted to ₹ 60,000 including the sale of old furniture for ₹ 1,200 (book value ₹ 3,500). The total cash sales were 80% less than the total credit sales.
- (2) Cash collection from debtors amounted to 60% of the aggregate of the opening debtors and credit sales for the period. Debtors were allowed cash discount for ₹ 2,600.
- (3) Bills Receivable drawn during three months totalled ₹ 6,000 of which bills amounting to ₹ 3,000 were endorsed in favour of suppliers. Out of these endorsed B/R, a B/R for ₹ 600 was dishonoured for non-payment, as the party became insolvent, his estate realising nothing.
- (4) Purchases totalled ₹ 16,000 of which 10% was for cash.
- (5) A cheque received from a customer for ₹ 6,000 was dishonoured; a sum of ₹ 500 is irrecoverable: Bad Debts written off in the earlier years realised ₹ 2,500.
- (6) Sundry debtors, as on 1st January, 2013 stood at ₹ 40,000

You are required to show the Debtors' Ledger Adjustment Account in the General Ledger.

Solution

General Ledger Debtors' Ledger Adjustment Account

Dr.			Cr.
	₹		₹
To Balance b/d	40,000	By General Ledger	
To General Ledger		Adjustment A/c:	
Adjustment A/c:		Collection (Cash	
Sales	49,000	& Bank)	53,400
Sundry Creditors	600	Discount	2,600

B/R Dishonoured		Bills Receivable	6,000
Bank		Bad Debts	1,100
Cheque dishonoured	<u>6,000</u>	By Balance c/d	<u>32,500</u>
	<u>95,600</u>		<u>95,600</u>

Note : If credit sales is ₹ 100, cash sales will be ₹ 20. Total credit sales shall be 5/6th of ₹ 58,800, i.e., ₹ 49,000.

Illustration 6

From the following particulars, prepare the relevant adjustment account as would appear in the General Ledger of Mr. Vasu for the month of March, 2015:

Date Particulars

- 1 Purchase from Mr. X ₹ 2,000
- 2 Paid ₹ 1,600 after adjusting the initial advance in full to Mr. X.
- 13 Paid ₹ 1,000 to Mr. R towards the purchases made in February in full.
- 13 Paid advance to Mr. Y ₹ 3,000
- 14 Purchased goods from Mr. A ₹ 4,000
- 25 Returned goods worth ₹ 500 to Mr. A.
- 26 Settled the balance due to A at a discount of 10 per cent.
- 27 Goods purchased from Mr. Y ₹ 2,500 against advance paid on 13th.
- 28 Received at bank the advance from Mr. P paid on 28 February, 2015, ₹ 2,000.
- 29 Purchased from B ₹ 2,000.
- 30 Goods returned to Q ₹ 750.

Solution

Creditors Ledger Adjustment Account

2015		₹	2015		₹
March 1	To Balance (X, P)	2,400	March 1	By Balance (R) b/d:	1,000
March 31	To General Ledger Adjustment A/c (In Bought Ledger)		March 31	By G.L. Adjust A/c (in Bought Ledger)	
	Bank (X, R, Y & A)	8,750		Purchases	10,500
	Returns (A&Q)	1,250			

8.18 Accounting

	Discount	350		Bank (Refund)	2,000
March 31	To Balance c/d (B)	<u>2,000</u>	March 31	By Balance c/d (Y, Q)	<u>1,250</u>
		<u>14,750</u>			<u>14,750</u>
April 1	To Balance b/d (Y, Q)	1,250	April 1	By Balance b/d (B)	2,000

Working Notes :

(1)	Purchases:		
	1.3.2015	X	2,000
	14.3.2015	A	4,000
	27.3.2015	Y	2,500
	30.3.2015	B	<u>2,000</u>
			<u>10,500</u>
(2)	Payments:		
	2.3.2015	X	1,600
	13.2.2015	R	1,000
	13.2.2015	Y	3,000
	26.3.2015	A ₹ 3,500 - 10%	<u>3,150</u>
			<u>8,750</u>

Illustration 7

From the following information prepare a Total Debtors Account as appearing in the General ledgers in the Books of M/s Shukla and Company.

Debit balance as on 1.7.2014, ₹ 87,200; Credit balance as on 1.7.2014 in Debtors Account ₹ 600.

Transactions during 6 months ended on 31.12.2014:

Total sales were ₹ 94,000 including cash sales of ₹ 4,000. Debtors whose balances were in credit were paid off ₹ 600. Payments received by cheques from Debtors ₹ 60,000. Payments received by cash from Debtors ₹ 48,000. Payment received by bills receivable ₹ 26,000.

Bills receivable received from Debtors were dishonoured for ₹ 6,000 and noting charges of ₹ 60 were paid. Cheques received from customers were dishonoured for ₹ 800.

Out of bills receivable received and included in ₹ 26,000 above, bills of ₹ 5,000 were endorsed to suppliers.

Bad debts written-off during the period were ₹ 1,000. Discount allowed for prompt payment were ₹ 700 and bad debts written off in 2013 and now recovered from debtors amounted to ₹ 900.

Interest debited for delay in payments were ₹ 1,250. On 31.12.2014 provision for doubtful debts was created for ₹ 2,100. M/s Trial & Co.'s account appeared in Debtors Ledger and also in Creditors Ledger. The balance in Creditors Ledger was ₹ 900 and the same was transferred to Debtors Ledger. Goods of ₹ 2,760 were rejected by the customers.

Solution**In the General Ledger of M/s. Shukla & Company**

Dr. Total Debtors Account			Cr.		
Date	Particulars	₹	Date	Particulars	₹
1.7.2014	To Balance b/f	87,200	1.7.2014	By Balance b/f	600
1.7.2014 to 31.12.2014	To Sales (₹ 94,000 - ₹ 4,000)	90,000	1.7.2014 to 31.12.2014	By Bank	60,000
"	To Cash	600	"	By Cash	48,000
"	To Bills Receivable (dishonoured)	6,000	"	By Bills receivable	26,000
"	To Bank (noting charges)	60	"	By Bad debts	1,000
"	To Bank (cheque dishonoured)	800	"	By Discount allowed	700
"	To Interest	1,250	"	By Total Creditors A/c-Transfer	900
			"	By Sales Return	2,760
			"	By Balance c/d	45,950
		<u>1,85,910</u>			<u>1,85,910</u>

Notes:

- (1) Bad debts of 2013 recovered in 2014 will not appear in the Total Debtors Account. It should be credited to Profit and Loss Account.
- (2) Bills Receivable of ₹ 5,000 endorsed to suppliers has nothing to do with Total Debtors Account because at the time of endorsement Suppliers Account is debited and Bills Receivable Account is credited.

Illustration 8

The following particulars are obtained from books of a Self Ltd. for the year ended 31st March, 2015:

	₹		₹
Cash Sales	25,000	Bills Receivable dishonoured	2,500

8.20 Accounting

Credit Purchases	2,80,000	Return Inward	8,500
Collection from Debtors	4,25,000	Payments to creditors	1,62,000
Bills Receivable drawn	20,000	Discount allowed	3,000
Discount Received	2,500	Debtors' cheque returned dishonoured	7,500
Cash Purchases	12,000	Credit Sales	4,90,000
Bills Payable paid	6,500	Bills Receivables collected	10,000
Recovery of Bad Debts	1,500	Return outward	3,700
Bills Receivable discounted with Bank	8,000	Bills Receivable endorsed to creditors	7,900
Interest charged on overdue Customer's Accounts	1,200	Overpayments refunded by suppliers	600
Endorsed Bills Receivable dishonoured (noting charges ₹ 75)	5,500	Bad Debts	1,000
Bills Payable accepted	16,000	Opening Balances	
		Sundry Debtors	78,000
		Sundry Creditors	85,000

You are required to prepare the Total Debtors Account and Total Creditors Account.

Solution

In the books of Self Ltd.

Total Debtors Account

	₹		₹
To Balance b/d	78,000	By Cash	4,25,000
To Bank (Cheque dishonoured)	7,500	By Discount Allowed	3,000
To B/R (Dishonoured)	2,500	By B/R	20,000
To Interest	1,200	By Returns Inward	8,500
To Sales	4,90,000	By Bad Debts	1,000
To Sundry Creditors (endorsed bill dishonoured with noting charges)	5,575	By Balance c/d	1,27,275
	<u>5,84,775</u>		<u>5,84,775</u>

Total Creditors Account

	₹		₹
To Cash	1,62,000	By Balance b/d	85,000
To B/R (endorsed)	7,900	By Purchases	2,80,000
To Discount received	2,500	By Sundry Debtors A/c (endorsed B/R)	

To Bills Payable	16,000	dishonoured with noting charges)	5,575
To Return outward	3,700	By Cash (over payments refunded)	600
To Balance c/d	<u>1,79,075</u>		
	<u>3,71,175</u>		<u>3,71,175</u>

Note: Transactions relating to cash sales or purchases; honour of bills receivable or payable; and discount or endorsement of bill will not be entered in Total Debtors and Total Creditors A/c.

Illustration 9

The following particulars are obtained from books of Z Ltd. for the year ended 31st March, 2015:

	₹		₹
Cash Sales	75,000	Bills Receivable dishonoured	2,500
Credit Purchases	2,80,000	Returns Inward	10,500
Collection from Debtors	5,00,000	Payment to creditors	2,62,000
Bills Receivable drawn	20,000	Discount allowed by creditors	3,000
Discount Received	5,000	Debtors' cheque returned dishonoured	7,000
Cash Purchases	72,000	Credit Sales	5,25,000
Bills Payable paid	6,500	Bills Receivables collected	10,000
Recovery of Bad Debts	1,500	Returns outward	3,700
Bills Receivable discounted with Bank	8,000	Bills Receivable endorsed to creditors	7,900
Interest charged on overdue Customer's Accounts	1,200	Overpayments refunded by suppliers	600
Endorsed Bills Receivable dishonoured	5,500	Bad Debts	1,000
Bills Payable accepted	16,000	<u>Opening Balances</u>	
		Sundry Debtors	78,000
		Sundry Creditors	85,000

You are required to prepare the Total Debtors Account and Total Creditors Account.

Solution:

In the books of Z Ltd.

Total Debtors Account

	₹		₹
To Balance b/d	78,000	By Cash	5,00,000
To Sales	5,25,000	By B/R	20,000
To B/R (Dishonoured)	2,500	By Returns Inward	10,500

8.22 Accounting

To Bank (Cheque dishonoured)	7,000	By Bad Debts	1,000
To Interest	1,200	By Balance c/d	87,700
To Total Creditors (Endorsed bill dishonoured)	<u>5,500</u>		
	<u>6,19,200</u>		<u>6,19,200</u>

Total Creditors Account

	₹		₹
To Discount received (5,000 + 3,000)	8,000	By Balance b/d	85,000
To Cash	2,62,000	By Purchases	2,80,000
To Bills Payable	16,000	By Total Debtors A/c (endorsed B/R dishonoured)	5,500
To Return outward	3,700	By Cash (overpayments refunded)	600
To B/R (endorsed)	7,900		
To Balance c/d	<u>73,500</u>		
	<u>3,71,100</u>		<u>3,71,100</u>

Note:

- Transactions relating to cash sales or cash purchases; collection/payment of bills receivable/payable, discounting of bills and recovery of bad debts will not be entered in Total Debtors or Total Creditors A/c.
- It is assumed that endorsed bills receivable dishonoured of ₹ 5,500 were earlier endorsed to creditors only.

Summary

- Self Balancing Ledger System implies a system of ledger keeping which classifies ledgers as per nature of transactions.
- In order to reduce to a minimum the trouble and time involved in locating the errors, sometimes the system of self-balancing or sectional balancing of ledger is employed.
- In self-balancing system, generally three ledgers, namely debtor ledger, creditor ledger and main ledger (containing remaining accounts) are prepared.
- In self-balancing system "General Ledger Adjustment Account" is prepared in each of the subsidiary ledgers. The General ledger would have Bought Ledger Adjustment Account (in reality, Total Creditors Account) and Sales Ledger Adjustment Account (in reality, Total Debtors Account). These accounts are known as Control Accounts
- Under Sectional balancing system, if the error affects the accounts of Debtors or Creditors without affecting their total, it is rectified by adjusting the accounts of Debtors or Creditors itself. However, if it affects the totals of Debtors or Creditors, the additional entries are to be made